



THE BOOTS COMPANY PLC

REPORT AND ACCOUNTS 1986

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FOR THE YEAR ENDED 31st MARCH 1986

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FINANCIAL CALENDAR

Dividends and interest payments

Ordinary dividends

Final 1985/86:

Announced 29th May 1986.

Payable 17th July 1986.

Interim 1986/87:

Announced 20th November 1986.

Payable 8th January 1987.

Final 1986/87:

Proposed May 1987.

Payable July 1987.

7¾% loan stock interest:

Paid 30th September and

31st March.

Results

For half-year:

Announced 20th November 1986.

For the year:

Announced May 1987.

Report and accounts:

Circulated June 1987.

For capital gains tax purposes the market value of a Boots share was 20p on 6th April 1985 and 112.5p on 31st March 1982.



- 2 JUL 1986

BOARD OF DIRECTORS

Chairman and chief executive	R N Gunn
Vice chairman	*A B Marshall
Managing director (<i>Industrial Division</i>)	E E Cliffe, DPhil, FIBiol, FRSC
Managing director (<i>Retail Division</i>)	K Ackroyd, FPS
	P H Courtney, FCA
	A H Hawksworth, TD, ADC
	G M Hourston, FPS
	*The Rt Hon Sally Oppenheim, PC, MP
	*I M G Prosser, FCA
	*Sir Peter Reynolds, CBE
	T G Richardson
	M F Ruddell
	*D A G Sarre
	G R Solway
	B H C Theobald
	*Non-executive directors

Secretary	D N Edmundson
Registered office	Nottingham, NG2 3AA
Auditors	Peat, Marwick, Mitchell & Co.
Bankers	National Westminster Bank PLC National Girobank
Registrars and transfer office	National Westminster Bank PLC Registrar's Department, P.O. Box 82, 37 Broad Street, Bristol. BS99 7NH

GROUP HIGHLIGHTS

for the year ended 31st March 1986

	1986 £m	1985 £m	% change on 1985
Turnover	2126·1	2033·1	+4·6
Profit on ordinary activities before taxation	210·4	190·3	+10·6
Profit on ordinary activities after taxation	137·6	113·7	+21·0
Earnings per share after taxation	18·6p	15·5p	+20·0
Dividends	51·8	45·2	+14·6
Capital expenditure	103·1	93·0	+10·9
Research expenditure	26·0	22·4	+16·1
Valuation surplus on certain UK shop properties.	326·0		

STATEMENT BY THE CHAIRMAN

I am pleased to report that the Company has made further progress during the year and much has been achieved in laying the foundations for future growth.

Group sales for the year were £2,126.1m (1985 £2,033.1m) and profits before tax were £210.4m, an increase of 10.6% over the previous year. After adjusting for the surplus on property disposals (£19.3m), the adverse movement in exchange rates (£6.2m) and the non-comparative DHSS remuneration adjustment included last year (£5.8m) group profit increased by 12.8%.

Earnings per share rose by 20% and the directors have recommended a final dividend of 4.6p per share, making a total for the year of 7.1p per share (1985 6.2p per share).

Boots The Chemists continued its programme of refitting and upgrading the larger stores and a major redevelopment programme for the smaller stores has now begun. The capital development programme for both large and small branches will be accelerated during the current year and expenditure will reach record levels.

We have also undertaken a major re-organization of the management structure of Boots The Chemists designed to increase individual responsibility and accountability and to enable the chain to respond more quickly and decisively to any change in market conditions. In future the 200 large stores will be managed separately from the small stores, and the director in charge of the large stores group will also control nine business centres, each responsible for their merchandise right through from the development and acquisition stages to the marketing and promotion in the stores. The 800 small stores will benefit from more direct supervision. The new, more streamlined structure will reduce central overhead costs substantially and will provide a sound base for future development.

Overseas, Boots Drug Stores in Canada had a disappointing year made worse by a prolonged strike in the central distribution centre, but Sephora continued its rapid expansion in France and the future there looks very promising.

The Consumer Products business has had a successful year, with rapidly increasing sales for Advil

and Nurofen being a major factor. To meet the demand for these products we have increased our manufacturing capacity substantially. In March we acquired Farley Health Products, and with the installation of new plant the well known brands will help us to develop still further this important growth sector of our business.

The Pharmaceutical business had a difficult year but still increased sales. In the UK and in certain other countries including Spain, government restrictions have affected profitability. In the US we have completed new major facilities for Boots Pharmaceuticals. We are confident that we can expand our business in this important market, despite short term profit reductions following the expiry of the ibuprofen patent with the consequent loss of royalty and severe generic competition for our branded product Rufen.

We increased substantially our expenditure on Research and Development which we believe in due course will bring substantial rewards from exciting new products which are mentioned in the group review.

We have increased the size of the team looking at suitable acquisition candidates and I am confident that we shall have further success during the year.

Although we have improved productivity substantially in recent years, we have started a major review of our current activities with a view to reducing the present cost base of the Company by a considerable amount.

Sir Peter Reynolds CBE was appointed to the Board as a Non-Executive Director on 20th March 1986. Sir Peter is Chairman of Ranks Hovis McDougall PLC and his considerable business experience will I am sure be of great benefit to the Company.

Boots staff at all levels in the many countries of the world in which we trade have responded well to the many challenges with which they have been faced. On behalf of the Directors and myself, I thank them all for their hard work and dedication.

The year ahead will see many more changes within the Company which will make it stronger and more competitive. I am confident that we shall continue to make good progress.



▲ *Robert Gunn*
Chairman

▲ *Eric Cliffe*
Managing Director
Industrial Division

▲ *Keith Ackroyd*
Managing Director
Retail Division



▲ Pharmacy at Boots The Chemists

GROUP REVIEW

Group Results

Profit before tax at £210.4m was ahead by 10.6% on turnover of £2,126.1m, up by 4.6%.

Several special factors affect these comparisons, in particular the non-recurrence of last year's retrospective settlement with the DHSS, following the 1984 review of chemists' labour and overhead costs, as well as the net adverse impact of currency fluctuations, and an offset in the form of a more than doubled benefit from the disposal of surplus trading properties. Adjusting for these, profits were ahead by 12.8% on turnover up by 7.3%.

Retail Division turnover at £1,832m increased by 4.2%, and profits at £130.7m were up by 11.1%. After allowing for the distortion caused by the non-comparative DHSS repayment, UK sales and profits



increased by 5.5% and 10.6% respectively, before property disposal surpluses.

Industrial Division achieved sales of £404.9m, an increase of 5.7%, with profits of £66.6m, ahead by 3.7%. At comparative exchange rates these increases become 11% and 15.6% respectively.

UK Retail

Boots The Chemists sales increased by 5.5% from an unchanged sales area. The growth in national consumer expenditure was concentrated particularly in the clothing sector, in which we have little involvement.

Sales of over-the-counter medicines advanced ahead of the market, but NHS business was depressed by the effects of the limited list of prescribable drugs, introduced in April 1985, and by a marked increase in

the number of retail pharmacies anticipating future restrictions on openings arising from a new NHS contract.

The core business performed well, with further increases in our already dominant shares of the



cosmetics, fragrance, and photographic processing markets. Summer sales of seasonal ranges were below plan, due to the poor weather, while reduced sales of low margin home computers adversely affected Christmas business.

Underlying gross profit margins again advanced significantly, reflecting improved product mix, skilful buying and higher sales of own brands at favourable profit margins.

The refurbishment programme for larger stores has continued during the year, through a combination of refits and sub-shop introductions. During the year we doubled the number of optical practices to 68 and, due to their outstanding success, further rapid expansion is planned. Optical practices are now also



▲ Top: Foodcentre at Boots The Chemists

▲ Bottom: Range of Boots healthy nutritious foods

▲ Relunched '17' teenage cosmetics

GROUP REVIEW

being opened in some small branches where they complement Boots authority in healthcare. Another element of our healthcare concept is represented by the 'foodcentre', concentrating primarily on healthy and nutritious foods. With 208 of these now operating, coupled with an expanding range of own brand



products, trading results are very encouraging. The introduction of Mother and Baby Rooms into our larger branches has also been welcomed and further extension of this service to customers will take place.

Further investment has taken place in establishing Sound/Vision departments in 63 large stores with more to follow. Additionally, technological advances in photoprocessing have enabled the introduction of on-site 'mini-labs' for in-store film processing, offering customers a one-hour service. Early results have been excellent and 120 mini-labs will be opened in the current year.

Our strategy for store investment and modernisation has given priority to larger branches, but an important redevelopment programme for smaller branches is now under way based on marketing concepts which highlight our traditional strengths in

health and beauty. The new designs and inventory recognise differing customer requirements and the eight pilot branches in the new formats are operating satisfactorily.

The achievement of high standards in meeting customer demands continues to be of paramount importance, and much effort has been devoted to staff training, greater operational efficiency and improved merchandise ranges in recent years. We now believe that further progress against increasingly specialist competitors will be facilitated by changing the management structure of Boots The Chemists. The new leaner structure brings a dedicated approach to the various businesses and markets in which we operate, increases managerial accountability, and reduces central administration. We are confident that it provides the



basis for very significant improvement in UK retail performance.

Overseas Retail

The successful Sephora chain in France increased sales by 78%, with seven new stores opened during the year, bringing the total to 20. An expansion plan for the future has been agreed.



▲ Top: New in-store photographic mini-lab

▲ Bottom: Range of Boots own brand products

▲ Newly designed Boots healthcare store at North Finchley



▲ N°7 cosmetics, the UK leading retail brand—relaunched in Spring 1986



▲ Part of Boots central computer facility

GROUP REVIEW



Canada, with 181 drug stores, suffered a reduction in profit due to a prolonged warehouse strike, dull Christmas trading, and adverse currency translation.

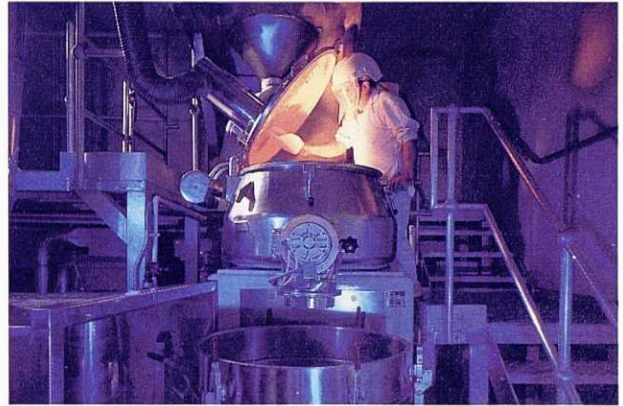
Own Brands

It is the detailed co-operation between retail marketing, product development and production with professional technical support that enables innovative and unique products to be launched with our reputation for quality and value. In particular, the high standing and strong market position of Boots Own Brands in our core areas of medicines, toiletries and cosmetics, most of which are developed and manufactured by the Industrial Division, depend upon close inter-relationships within the Company.

The year has seen the culmination of major development programmes on our cosmetic ranges. Having successfully achieved the re-launch of '17' brand teenage cosmetics last September, we are marketing the

new range of N°7 this Spring. N°7 is already the leading brand in retail stores in the UK. Both ranges have been updated to include new formulations and are presented in contemporary livery.

Other new products during the year included medicines, a vegetarian food range, a plaque-control toothpaste, a rapid recharge electric razor, a total lawn treatment product, a unique range of items for the wine and beer-making enthusiast, 'Skin Kindly' range for sensitive skins, and a specialist footcare range.



Consumer Products

Sales increased by 8.1%, equivalent to 17% at constant exchange rates, with successes in many major brands, particularly in the UK through Crookes Products with Nurofen, Optrex, Strepsils and Cream E45 all doing well.

The over-the-counter ibuprofen brands Nurofen and Advil have achieved significant shares of the analgesic markets in the UK and US earlier than originally expected. Advil is already earning profits on sales of tablets to our licensee in addition to royalty income and Nurofen in the UK is projected to contribute to profit in 1986. It is now also marketed in Ireland, Holland, Italy, New Zealand, Belgium and most recently in Japan. In the past two years capacity of the tableting factory near Nottingham has been doubled in order to meet this increasing demand.



▲ Top: '17' cosmetics production at Airdrie, Scotland

▲ Cosmetic powder mixing at Airdrie, Scotland

▲ Bottom: Boots and Crookes over-the-counter healthcare products

GROUP REVIEW

Overseas, the company in Kenya substantially resolved the problems of the previous year, but shortage of supplies continued to depress performance in Nigeria.

Farley Health Products was acquired for £18m in



March 1986. Products include well-known brands such as Ostermilk, Complan and Farley Baby Rusks and cereal ranges. The milk products had been withdrawn from the market by the former owners following an incident of suspected product contamination. With new production equipment and exacting standards of quality control they will be re-established during 1986.

Pharmaceuticals

Sales increased by 5.8% over the previous year, equivalent to 13.1% at constant exchange rates. In the UK the sales increase of the antirheumatic products Brufen and Froben was hindered by increased competition from generic products and parallel imports. The antidepressant Prothiaden, which is market leader in the UK, produced a sales increase of 34%.



▲ Top: Chemical production—computer control room at Cramlington, Northumberland

▲ Bottom: Tablet factory at Beeston, Nottingham

Overseas the subsidiary companies in Europe and the Indian sub-continent produced good results. Kanoldt, our subsidiary in Germany, made good progress during the first full year since acquisition. In many markets Prothiaden sales increased as the reliability of the product in the treatment of depression became recognised. In the US, Boots Pharmaceuticals, in spite of increased price competition on ibuprofen products, held volume sales at a high level. New factory, warehouse and office facilities at Shreveport, Louisiana, are now complete at a cost of US\$ 36m.

Clinical trials on the new antihypertensive product are proceeding satisfactorily in the UK and US and trials have now begun in Europe. Trial work has also been expanded to the important area of cardiac failure, where it is now clear that the product has beneficial

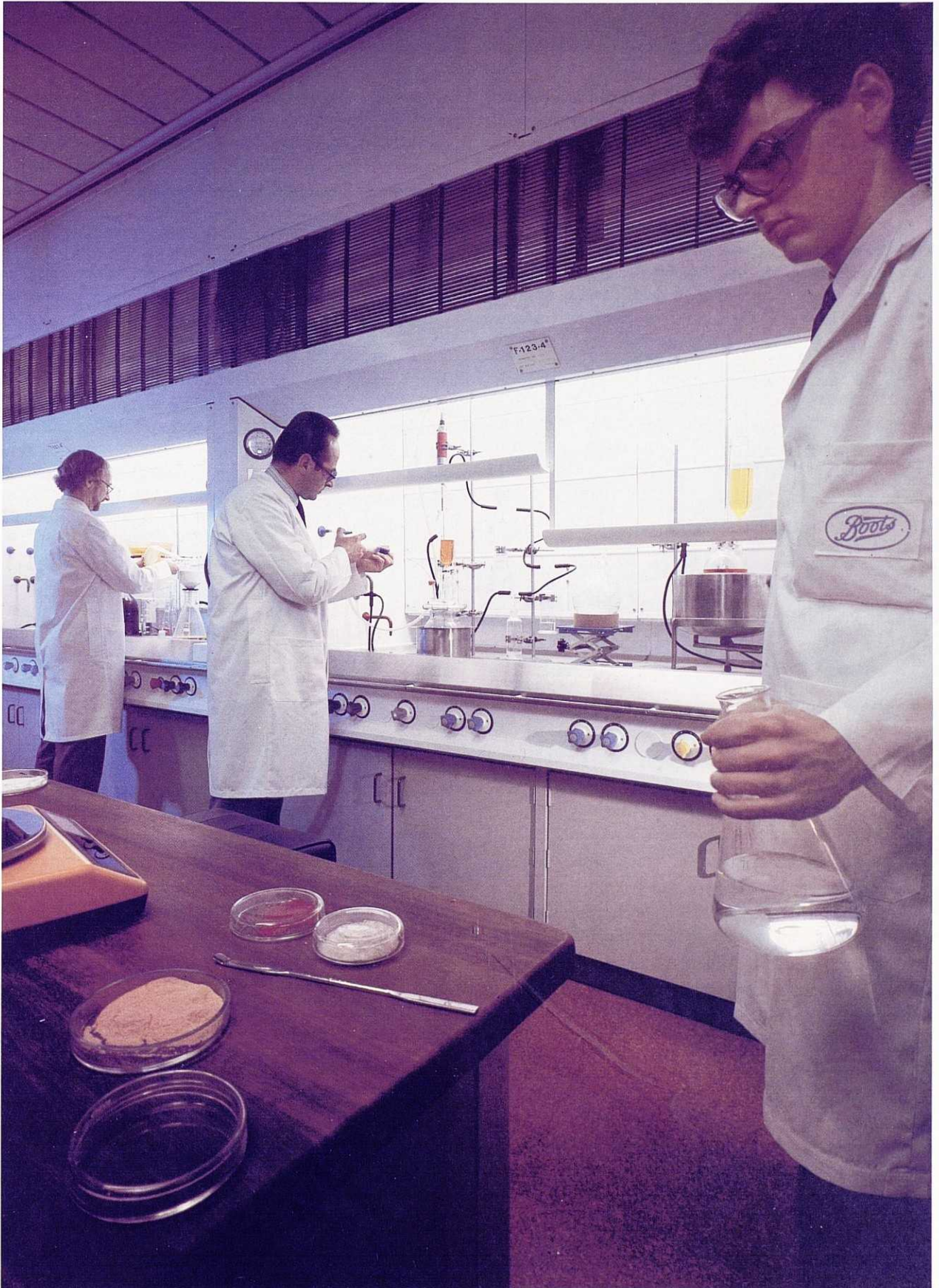


effects. The new antidepressant product is now undergoing clinical trials in the UK and US.

The £23m building programme to expand pharmaceutical research and development is nearing completion with most of the premises occupied. This expenditure underlines the commitment to this important area and will provide modern enlarged facilities.

Boots-Celltech Diagnostics increased product sales almost threefold. The expansion has been achieved both through additional products and by improved representation overseas.

▲ New factory, warehouse and office facilities—Shreveport, Louisiana



▲ New pharmaceutical research facility at Nottingham

DIRECTORS' REPORT

The directors of The Boots Company PLC present their annual report to shareholders, together with the audited accounts for the year ended 31st March 1986.

Principal activities

The group's worldwide trading is conducted through two divisions, Industrial and Retail. The principal activities of the former are the research, manufacturing and marketing of pharmaceuticals and consumer products. The Retail Division's principal activities are the retailing of chemist and other merchandise. A review of group activities is shown on pages 7 to 12.

Group results

The group profit and loss account for the year ended 31st March 1986 (with 1985 comparisons) shown on page 16 includes the following details:

	1986 £m	1985 £m
Trading profit	191.5	176.9
Profit on ordinary activities before taxation	210.4	190.3

Appropriations

The directors recommend the payment of a final dividend of 4.6p per share which, if approved by shareholders, will be posted on 17th July 1986 to shareholders registered on 16th June 1986. When added to the interim dividend of 2.5p already paid this makes a total dividend for the year of 7.1p per share (1985 6.2p per share). Payment of these dividends requires £51.8m (1985 £45.2m), leaving £84.1m (1985 £88.7m) retained in the business.

Group structure

In March 1986 the group acquired the business of Farley Health Products Ltd. a consumer products manufacturing and marketing company.

The group will reduce its investment in The Boots Company (India) Ltd. from 53% to 40% in July 1986. This will allow expansion of the business in accordance with Government policy in that country.

Share capital

Details of all shares issued during the year are shown in note 19 on page 29.

Fixed assets

Certain of the group's UK shop properties were professionally valued by Hillier Parker, and Weatherall Green and Smith, as at 1st January 1986. The valuation, on the basis of open market value for existing use, amounted to £502m resulting in a surplus over historical net book value of £326m.

The valuation included all freehold and those leasehold shop properties with no rent review or lease expiry date before 31st March 1993 except for those in course of disposal during the period to 31st March 1986. This valuation has not been incorporated into the accounts.

It is anticipated that no taxation will become payable on this revaluation surplus, as taxation on gains on properties sold in the normal course of business is expected to be deferred indefinitely.

In view of the results of this valuation and the high residual values of freehold and long leasehold shop properties, the directors consider that no material depreciation charge arises on shop freeholds and long leases with more than 100 years to run. As a consequence the future annual depreciation cost will fall by approximately £2m.

Details of fixed assets are shown on pages 23 and 24.

Employment policies

The company continues to involve staff in the decision-making process, through management, through a comprehensive structure of staff councils and with trade unions where they represent staff.

In addition to staff councils, briefing meetings are held with representatives of staff at all levels to explain the financial and economic factors affecting the group and to review group performance. These and other business matters are reported in *Boots News* which is published every six weeks and is sent to employees throughout the world, and in an annual report to staff. This is supported by a video presentation, in which the directors report on group results.



▲ Sir Peter Reynolds

DIRECTORS' REPORT

In the UK, staff involvement in performance is encouraged through a bonus scheme and a linked employee share scheme related to UK profits, and also through an employees' share option scheme linked to save-as-you-earn savings contracts. The involvement of staff also extends to the board of Boots Pensions Ltd., on which there are four employee representatives, out of a total of nine board members.

The company recognises its social and statutory duty to employ disabled persons and does all that is practicable to meet this responsibility. It is the company's policy to consider applications for employment from disabled persons (whether registered or not) in the light of their aptitudes and abilities and the needs of the job. Where an employee becomes disabled he or she continues in the same job or, if this is not practicable, every effort is made to find a suitable alternative job and appropriate training is given.

The company's aim in training and promotion for all members of staff is to fit the qualifications and ability of each individual to the appropriate job, and to provide equal opportunity regardless of sex, religion or race.

The training and re-training of staff is a high priority, both for the benefit of the individuals involved and for the prosperity of the company. Much of this training is on-the-job as well as on in-house and external courses. The company has continued its high level of support for the Youth Training Scheme with approved places for over 1,000 trainees during the year. Approval has been obtained for the company to continue at this level for the two year arrangements which have just commenced.



▲ David Sarre

Business in the Community

Our support for job creation through Business in the Community has been increased. The number of Local Enterprise Agencies to which we give financial or other support has risen from 6 to 26 during the year.

Charitable donations

Donations for charitable and educational purposes in the UK for the year were £466,000 (1985 £415,000). There were no political payments.

Directors

On 25th September 1985 Mr A B Marshall was appointed Vice Chairman of the Board and Chairman of the Audit Committee.

On 20th March 1986 Sir Peter Reynolds CBE was appointed to the Board as a non-executive director. He is Chairman of Ranks Hovis McDougall PLC, holds a number of appointments in the food industry and is a member of the Industrial Development Board for Northern Ireland. In accordance with article 107 Sir Peter retires and offers himself for re-election.

Mr D A G Sarre retires by rotation in accordance with article 100 and offers himself for re-election.

Neither Sir Peter Reynolds nor Mr D A G Sarre has a service contract with the company.

No director had any interest, either during or at the end of the financial year in any contract which was significant in relation to the group business.

Details of the interests of the directors and their families in the share capital of the company are shown in note 25 on page 33.

Shareholders

The directors are not aware that any person held a beneficial interest in 5% or more of the share capital of the company at 29th May 1986.

Company status

The close company provisions of the Income and Corporation Taxes Act 1970 do not apply to this company.

Auditors

It is proposed to re-appoint Messrs. Peat, Marwick, Mitchell & Co., as auditors and a resolution to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the board
D N Edmundson, *Secretary*.

29th MAY 1986.

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31st March 1986

	Notes	1986 £m	1985 £m
Turnover	2	2126.1	2033.1
Trading profit	3	191.5	176.9
Interest and similar income	4	18.9	13.4
Profit on ordinary activities before taxation		210.4	190.3
Taxation on profit on ordinary activities	5	(72.8)	(76.6)
Profit on ordinary activities after taxation		137.6	113.7
Minority interests		(1.7)	(1.0)
		135.9	112.7
Extraordinary profit after taxation	6	—	21.2
Profit for the financial year attributable to shareholders	7	135.9	133.9
Dividends	8	(51.8)	(45.2)
Profit retained		84.1	88.7
Earnings per share after taxation	9	18.6p	15.5p

BALANCE SHEETS

31st March 1986

	Notes	Group		Parent	
		1986 £m	1985 £m	1986 £m	1985 £m
Fixed assets					
Intangible assets	10	5.6	—	5.1	—
Tangible assets	11	569.1	504.3	169.6	157.1
Investments	12	2.7	3.7	123.3	98.9
		<u>577.4</u>	<u>508.0</u>	<u>298.0</u>	<u>256.0</u>
Current assets					
Stocks	13	376.5	373.7	145.3	142.1
Debtors	14	128.8	129.1	282.5	287.0
Investments	15	187.3	165.7	176.1	145.0
Cash at bank and in hand		12.0	9.0	1.4	.3
		<u>704.6</u>	<u>677.5</u>	<u>605.3</u>	<u>574.4</u>
Creditors: amounts falling due within one year	16	(420.2)	(373.8)	(301.6)	(272.0)
Net current assets		<u>284.4</u>	<u>303.7</u>	<u>303.7</u>	<u>302.4</u>
Total assets less current liabilities		861.8	811.7	601.7	558.4
Creditors: amounts falling due after more than one year	17	(12.0)	(12.8)	(27.3)	(28.2)
Provisions for liabilities and charges	18	(18.8)	(25.2)	(7.1)	(9.1)
Net assets		<u>831.0</u>	<u>773.7</u>	<u>567.3</u>	<u>521.1</u>
Capital and reserves					
Called up share capital	19	182.5	182.2	182.5	182.2
Share premium	20	4.2	2.4	4.2	2.4
Revaluation reserve	20	7.6	8.1	—	—
Profit and loss account	20	633.2	577.8	380.6	336.5
		<u>827.5</u>	<u>770.5</u>	<u>567.3</u>	<u>521.1</u>
Minority interests		3.5	3.2	—	—
		<u>831.0</u>	<u>773.7</u>	<u>567.3</u>	<u>521.1</u>

R N GUNN }
P H COURTNEY } *Directors*

Approved by the board

29th MAY 1986.

SOURCE AND APPLICATION OF FUNDS

for the year ended 31st March 1986

	1986		1985	
	£m	£m	£m	£m
Source				
Group trading:				
Profit on ordinary activities before taxation		210.4		190.3
Share of results of related companies		.7		.4
		211.1		190.7
Depreciation less net surplus on disposal of tangible fixed assets		22.4		27.8
Proceeds on disposal of tangible fixed assets		23.3		13.7
Loans		—		.4
Issue of ordinary shares		2.1		1.1
		258.9		233.7
Proceeds on disposal:				
Surplus houseware premises	—		15.1	
Overseas investment	—		12.8	
Investment in related companies	.2		—	
	.2		—	27.9
		259.1		261.6
Application				
Capital expenditure		103.1		93.0
Intangibles		5.2		—
Business acquired		18.0		—
Goodwill		.7		—
Investments:				
Related companies	.3		1.0	
Subsidiary	—		10.7	
	.3		11.7	
Increase in creditors falling due after more than one year		(.4)		(.8)
Repayment of loans		1.2		1.7
Dividends paid		47.4		41.5
Taxation paid		77.2		63.8
Working capital:				
Increase in stocks	10.6		30.6	
Increase in debtors	2.6		15.1	
Increase in creditors falling due within one year	(25.7)		(.5)	
	(12.5)		45.2	
Other items		1.0		1.0
		241.2		257.1
Increase (decrease) in net cash resources:				
Listed investments	(55.5)		32.2	
Short term deposits	79.1		(11.8)	
Cash at bank and in hand	3.2		(2.2)	
Bank loans and overdrafts	(8.9)		(13.7)	
	17.9		4.5	
		259.1		261.6

The business acquired comprises intangible fixed assets £0.5m, tangible fixed assets £11.0m, goodwill £14.5m and net current liabilities £8.0m.

Exchange differences on translation of results and opening net assets of overseas subsidiaries have been excluded from applications as they do not represent movements of funds.

NOTES RELATING TO THE ACCOUNTS

1 Accounting policies

The following accounting policies have been used in dealing with items which are considered material in relation to the group accounts.

Basis of accounting

The accounts have been prepared under alternative accounting rules set out in the 4th Schedule to the Companies Act, 1985, being prepared under the historical cost convention adjusted by the revaluations of certain properties at open market value. A separate profit and loss account for the parent company has not been presented as permitted by section 228(7) of the Companies Act, 1985.

Consolidation

The accounts combine the results of the company and its subsidiaries and related companies for the period of, and to the extent of, group ownership, after eliminating intra-group transactions. The excess of cost of investments in subsidiaries over the fair value of tangible net assets acquired is written off to reserves.

Related companies are those companies in which the group has an equity interest of between twenty per cent and fifty per cent and over whose policies the group is able to exercise a significant degree of influence. The proportion of results attributable to the group is included in the group profit and loss account and dividends received from them are, therefore, excluded from investment income. In the group balance sheet investments in related companies are shown at the group's share of net assets excluding goodwill.

The accounts of UK subsidiaries and related companies are included to 31st March 1986. The accounts of overseas subsidiaries and related companies are included to 31st December 1985, and adjusted for any abnormal transactions in the intervening period, in order to facilitate early presentation of group accounts.

Foreign currencies

The results of overseas companies are translated into sterling on an average exchange rate basis, weighted by the actual results of each month.

Assets and liabilities of overseas subsidiaries are translated into sterling at the rates of exchange ruling at the date of the group balance sheet.

All translation differences are taken to reserves. Other exchange gains or losses are taken to trading profit where they relate to items of a trading nature. Overseas investments are stated at the rate of exchange in force at the date each investment was made.

Depreciation

Tangible fixed assets are written off by equal instalments over their expected normal lives. The maximum life assumed for buildings is eighty years, and the lives assumed for fixtures and plant vary between three and twenty years. No depreciation is provided on freehold land and assets in course of construction.

Intangible fixed assets acquired such as patents, trade marks and other product rights are written off by equal instalments over their estimated lives which range between four and fifteen years. Similar assets generated from within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

Research and development

Expenditure, other than on buildings and plant, is charged against profits in the year in which it is incurred.

NOTES RELATING TO THE ACCOUNTS

1 Accounting policies (continued)

Pension funding

The company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trustee administered funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at three-year intervals and include a review of contributions.

Certain overseas companies operate their own pension schemes.

Leases

The group's principal leased assets are properties acquired under operating leases. The costs of these leases are charged directly to the profit and loss account.

Deferred taxation

A deferred taxation provision is made only where the effects of timing differences between profits as stated in the accounts and as computed for tax purposes are likely to reverse in the foreseeable future and result in a tax payment. Advance corporation tax is carried forward to the extent that it is expected to be recovered.

No provision is made for any potential liability to corporation tax on capital gains arising on disposals of assets since any liability has been deferred under capital gains roll-over provisions.

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiary and related companies as the major part of these profits will not be remitted.

2 Turnover and profit on ordinary activities before taxation

	1986		1985	
	Turnover £m	Profit £m	Turnover £m	Profit £m
Industrial Division	404.9	66.6	383.0	64.2
Retail Division	1832.0	130.7	1758.9	117.6
Inter-divisional	(110.8)	—	(108.8)	—
	<u>2126.1</u>	<u>197.3</u>	<u>2033.1</u>	<u>181.8</u>
Interest and unallocated items	—	13.1	—	8.5
	<u>2126.1</u>	<u>210.4</u>	<u>2033.1</u>	<u>190.3</u>
Turnover by geographical destination and related profits is as follows:				
Africa and Near East	15.9	.2	15.2	(2.2)
USA	69.8	16.0	72.0	25.2
Other Americas	170.5	2.8	183.2	2.7
Asia	36.0	7.1	36.8	6.9
Australasia	19.7	1.7	23.1	2.4
Europe	104.4	7.2	80.5	5.2
UK	1709.8	163.0	1622.3	142.0
	<u>2126.1</u>	<u>198.0</u>	<u>2033.1</u>	<u>182.2</u>
Share of results of related companies	—	(.7)	—	(.4)
	<u>2126.1</u>	<u>197.3</u>	<u>2033.1</u>	<u>181.8</u>

Turnover comprises sales to external customers excluding sales taxes.

NOTES RELATING TO THE ACCOUNTS

3 Trading profit

	1986 £m	1985 £m
Turnover	2126·1	2033·1
Cost of sales	(1309·8)	(1268·1)
Gross profit	816·3	765·0
Selling, distribution and branch costs	(555·7)	(524·4)
Research and development costs	(26·0)	(22·4)
Administrative expenses	(69·1)	(64·0)
Surplus on disposal of retail trading properties	19·3	8·9
Other operating income—royalties	7·4	14·2
Share of results of related companies	(·7)	(·4)
Trading profit	191·5	176·9
Trading profit is after charging:		
Property rents	32·0	30·9
Depreciation	40·7	35·6
Computer and plant hire	4·6	4·5
Remuneration of auditors	·5	·5
The 1985 results include a benefit of £5·8m following a DHSS review of labour and overhead costs.		
The key average exchange rates against sterling used in arriving at trading profit were:		
US dollar	1·37	1·25
Canadian dollar	2·03	1·64
Indian rupee	16·33	14·70
Australian dollar	2·02	1·50

4 Interest and similar income

Interest receivable:

Listed investments	7·6	4·2
Short term deposits	14·0	14·1
	21·6	18·3
Gain of disposal of listed investments	3·3	2·0
	24·9	20·3

Interest payable:

Bank loans and overdrafts:		
Repayable within five years	(5·4)	(6·2)
Other loans:		
Repayable after five years	(·4)	(·7)
Repayable within five years	(·2)	—
	(6·0)	(6·9)
	18·9	13·4

NOTES RELATING TO THE ACCOUNTS

5 Taxation

	1986 £m	1985 £m
The charge on the profit of the year consists of:		
UK corporation tax at 40% (1985 45%)	65.9	59.9
Deferred taxation	(1.4)	1.8
Relief for overseas taxation	(3.0)	(4.8)
Total UK taxation	61.5	56.9
Overseas taxation	11.5	19.9
Share of taxation of related companies	(0.2)	(0.2)
	<u>72.8</u>	<u>76.6</u>
Unprovided deferred taxation in respect of the year:		
Capital allowances	3.8	6.3
Capital gains taxation rolled over	4.7	4.8
Other items	(0.3)	(0.8)
	<u>8.2</u>	<u>10.3</u>

6 Extraordinary profit after taxation

Profit on disposal:		
Surplus houseware premises	—	13.4
Overseas investment	—	11.8
	—	25.2
Less taxation	—	(4.0)
	—	<u>21.2</u>

7 Profit for the financial year attributable to shareholders

Of the profit attributable to shareholders £95.9m (1985 £92.8m) is dealt with in the accounts of the parent company.

8 Dividends

Interim paid of 2.5p per share	18.2	16.0
Final proposed of 4.6p per share	33.6	29.2
	<u>51.8</u>	<u>45.2</u>
7.1p		

9 Earnings per share

Earnings per share calculations are based on 729.7m (1985 728.6m) average ordinary shares in issue, weighted on a time basis. Earnings per share after taxation is based on profit, before extraordinary items, of £135.9m (1985 £112.7m).

The effect on earnings per share of the exercise of outstanding options by directors and employees into ordinary shares of the company would not be material.

NOTES RELATING TO THE ACCOUNTS

10 Intangible fixed assets

Patents, trade marks and other product rights acquired.

	Group £m	Parent £m
Additions at cost	5.7	5.2
Depreciation for year	.1	.1
Net book value at 31st March 1986	5.6	5.1

11 Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Fixtures, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
(a) Group					
Cost or valuation					
At 31st March 1985	317.3	95.0	258.7	35.3	706.3
Currency adjustments	(1.9)	(1.4)	(2.1)	(.9)	(6.3)
Additions	12.1	6.8	23.0	61.2	103.1
Business acquired	1.5	2.4	.6	6.5	11.0
Disposals	(3.1)	(3.3)	(5.7)	—	(12.1)
Reclassifications	(4.3)	23.3	19.3	(38.3)	—
At 31st March 1986	321.6	122.8	293.8	63.8	802.0
Depreciation					
At 31st March 1985	50.0	42.8	109.2	—	202.0
Currency adjustments	(.7)	(.7)	(1.2)	—	(2.6)
Depreciation for year	6.0	11.7	22.9	—	40.6
Disposals	(.6)	(2.2)	(4.3)	—	(7.1)
At 31st March 1986	54.7	51.6	126.6	—	232.9
Net book value at 31st March 1986	266.9	71.2	167.2	63.8	569.1

NOTES RELATING TO THE ACCOUNTS

11 Tangible fixed assets (continued)

	Land and buildings £m	Plant and machinery £m	Fixtures, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
(b) Parent					
Cost or valuation					
At 31st March 1985	66.9	77.9	60.5	24.9	230.2
Additions	2.0	4.4	7.1	17.3	30.8
Disposals	(.1)	(3.3)	(.9)	—	(4.3)
Reclassifications	(6.9)	22.9	7.0	(23.0)	—
At 31st March 1986	61.9	101.9	73.7	19.2	256.7
Depreciation					
At 31st March 1985	14.7	33.4	25.0	—	73.1
Depreciation for year	1.1	9.9	5.7	—	16.7
Disposals	—	(2.0)	(.7)	—	(2.7)
At 31st March 1986	15.8	41.3	30.0	—	87.1
Net book value at 31st March 1986	46.1	60.6	43.7	19.2	169.6

	Group		Parent	
	1986 £m	1985 £m	1986 £m	1985 £m
Net book value of land and buildings comprises:				
Land	51.4	51.2	2.3	2.4
Freehold property	148.2	152.1	40.8	46.8
Long leasehold (more than 50 years unexpired)	31.9	30.8	2.2	2.2
Short leasehold	35.4	33.2	.8	.8
	266.9	267.3	46.1	52.2
Net book value of tangible fixed assets under the historical cost convention				
	560.2	494.8	168.3	155.8
Analysis of cost or valuation:				
Cost	772.5	676.0	246.0	219.5
Independent valuation 1958	9.6	9.6	9.6	9.6
1959	.2	.2	—	—
1965	18.6	19.4	—	—
Directors' valuation 1971	1.1	1.1	1.1	1.1
	802.0	706.3	256.7	230.2

As stated in the Directors' report, an independent valuation of certain UK shop properties was undertaken as at 1st January 1986 and revealed a surplus of £326m which has not been incorporated into the accounts.

NOTES RELATING TO THE ACCOUNTS

12 Fixed assets—investments

	Group Related companies £m
Share of net tangible assets at 31st March 1985	3.7
Additions	.3
Share of results for the year	(.5)
Currency adjustments	(.6)
Disposals	(.2)
Share of net tangible assets at 31st March 1986	<u>2.7</u>

The cost of investments in related companies is £3.3m (1985 £3.2m).

	Shares in subsidiaries £m	Parent Loans to subsidiaries £m	Related companies £m	Total £m
At 31st March 1985				
Cost	67.1	19.4	3.2	89.7
Book value of net assets on acquisition	15.3	—	—	15.3
Provision	(2.9)	(1.3)	(1.9)	(6.1)
	<u>79.5</u>	<u>18.1</u>	<u>1.3</u>	<u>98.9</u>
Additions	.7	26.0	.3	27.0
Disposals and repayments	—	(.8)	(.2)	(1.0)
Currency adjustments	—	.1	—	.1
Change in provision	(1.4)	—	(.3)	(1.7)
At 31st March 1986	<u>78.8</u>	<u>43.4</u>	<u>1.1</u>	<u>123.3</u>
Cost	67.8	44.7	3.3	115.8
Book value of net assets on acquisition	15.3	—	—	15.3
Provision	(4.3)	(1.3)	(2.2)	(7.8)
	<u>78.8</u>	<u>43.4</u>	<u>1.1</u>	<u>123.3</u>

The list of principal companies shown on pages 34 and 35 forms part of this note.

NOTES RELATING TO THE ACCOUNTS

13 Stocks

	Group		Parent	
	1986 £m	1985 £m	1986 £m	1985 £m
Manufacturing:				
Raw materials	31.7	31.1	16.9	17.4
Work in progress	21.3	20.8	16.6	16.6
Finished goods	26.7	24.9	10.2	11.7
	<u>79.7</u>	<u>76.8</u>	<u>43.7</u>	<u>45.7</u>
Retailing	296.8	296.9	101.6	96.4
	<u>376.5</u>	<u>373.7</u>	<u>145.3</u>	<u>142.1</u>

14 Debtors

Falling due within one year:				
Trade debtors	93.8	100.2	61.2	64.0
Owed by group companies	—	—	204.8	208.8
Owed by related companies	1.5	1.4	1.5	1.4
Other debtors	11.9	7.3	5.6	3.3
Prepayments and accrued income	18.5	16.7	7.9	7.8
	<u>125.7</u>	<u>125.6</u>	<u>281.0</u>	<u>285.3</u>
Falling due after more than one year	3.1	3.5	1.5	1.7
	<u>128.8</u>	<u>129.1</u>	<u>282.5</u>	<u>287.0</u>

15 Current assets—investments

Listed investments	39.4	94.9	39.3	94.8
Short term deposits	147.9	70.8	136.8	50.2
	<u>187.3</u>	<u>165.7</u>	<u>176.1</u>	<u>145.0</u>
Market value of investments listed on The Stock Exchange	39.4	95.4	39.3	95.3

NOTES RELATING TO THE ACCOUNTS

16 Creditors: amounts falling due within one year

	Group		Parent	
	1986 £m	1985 £m	1986 £m	1985 £m
Bank loans and overdrafts	53.7	44.9	24.4	25.2
Trade creditors	147.1	138.2	117.0	111.7
Due to group companies	—	—	33.3	28.2
Due to related companies	.1	.1	.1	.1
Bills of exchange	5.2	3.2	.2	.2
Corporation tax	47.1	51.3	22.4	15.4
Advance corporation tax	21.5	19.4	21.5	19.4
Taxation and social security (including value added tax and other sales taxes)	16.9	15.1	13.6	12.7
Other creditors	72.7	50.2	29.9	24.8
Accruals	22.3	22.2	5.6	5.1
Proposed dividend	33.6	29.2	33.6	29.2
	<u>420.2</u>	<u>373.8</u>	<u>301.6</u>	<u>272.0</u>

Overdrafts of certain subsidiaries amounting to £3.4m at 31st December 1985 (1984 £1.4m) were secured on the assets of those subsidiaries.

17 Creditors: amounts falling due after more than one year

Loans	6.9	8.3	5.7	6.7
Due to group companies	—	—	21.6	21.5
Other creditors	5.1	4.5	—	—
	<u>12.0</u>	<u>12.8</u>	<u>27.3</u>	<u>28.2</u>

An analysis of loans is as follows:

Secured:

15% debenture 1990	.9	1.1	—	—
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Unsecured:

7¾% stock 1988/93	5.7	5.7	5.7	5.7
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6¾% convertible US dollar bonds 1993	—	1.0	—	1.0
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Foreign currency bank loans	.3	.5	—	—
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	<u>6.9</u>	<u>8.3</u>	<u>5.7</u>	<u>6.7</u>
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The debenture is repayable at 105% and is secured on the tangible fixed assets of the Indian subsidiary. Except for loans, creditors are repayable within 5 years.

NOTES RELATING TO THE ACCOUNTS

18 Provisions for liabilities and charges—deferred taxation

	Group £m	Parent £m		
At 31st March 1985	25.2	9.1		
Movement during year	(6.4)	(2.0)		
At 31st March 1986	<u>18.8</u>	<u>7.1</u>		
	1986 £m	1985 £m	1986 £m	1985 £m
Analysis of provision:				
Capital allowances	35.0	36.4	20.0	20.0
Other items	(2.5)	1.3	.8	1.6
Advance corporation tax recoverable	(13.7)	(12.5)	(13.7)	(12.5)
	<u>18.8</u>	<u>25.2</u>	<u>7.1</u>	<u>9.1</u>
Unprovided deferred taxation:				
Capital allowances	46.5	42.7	28.8	27.1
Capital gains taxation rolled over	25.7	21.0	.4	.3
Other items	(2.2)	(1.9)	(1.6)	(1.4)
	<u>70.0</u>	<u>61.8</u>	<u>27.6</u>	<u>26.0</u>

Deferred taxation is calculated at 35%.

NOTES RELATING TO THE ACCOUNTS

19 Share capital

	1986 £m	1985 £m
Ordinary shares of 25p each:		
Authorised	225.0	225.0
Issued and fully paid	182.5	182.2

Details of ordinary shares allotted during the year are as follows:

	Profit sharing scheme	Option schemes	Convertible US dollar bonds	Total
Number of shares allotted	583,943	85,346	637,919	1,307,208
	£000	£000	£000	£000
Nominal value	146	21	160	327
Share premium	934	67	810	1,811
Consideration	<u>1,080</u>	<u>88</u>	<u>970</u>	<u>2,138</u>

A profit sharing scheme enables qualifying employees to acquire ordinary shares at market price from an existing cash bonus. At 31st March 1986, 2,273,757 shares were held in trust for 5,100 employees.

Under a savings-related scheme options may be granted enabling employees with over five years' service to subscribe for ordinary shares at approximately 90% of market price. At 31st March 1986, options exercisable from 1986 to 1993 at between 86.5p and 247p per share are outstanding in respect of 1,932,375 shares.

In July 1985 shareholders approved The Boots 1985 Executive Share Option Scheme under which certain senior executives are granted options to subscribe for ordinary shares. At 31st March 1986, options expiring in 1995 at 195p per share are outstanding in respect of 1,935,000 shares.

A maximum of 80 million ordinary shares is available for these schemes.

Under an earlier savings related share scheme, options exercisable from 1986 to 1987 at between 85.5p and 112p per share are outstanding at 31st March 1986 in respect of 8,678 ordinary shares. The option holders of these shares have the right to exercise an alternative option under the present share option scheme in respect of 10,642 shares.

During the year all of the outstanding US dollar bonds were converted into shares.

NOTES RELATING TO THE ACCOUNTS

20 Reserves

	Group				Total £m
	Share premium account £m	Revaluation reserve £m	Profit and loss account £m	Share of related companies £m	
At 31st March 1985	2.4	8.1	577.3	.5	588.3
Profit retained	—	—	84.6	(.5)	84.1
Goodwill	—	—	(15.2)	—	(15.2)
Currency adjustments	—	—	(13.4)	(.6)	(14.0)
Transfers	—	(.5)	.5	—	—
Issue of shares	1.8	—	—	—	1.8
At 31st March 1986	<u>4.2</u>	<u>7.6</u>	<u>633.8</u>	<u>(.6)</u>	<u>645.0</u>

	Parent			Total £m
	Share premium account £m		Profit and loss account £m	
At 31st March 1985	2.4		336.5	338.9
Profit retained	—		44.1	44.1
Goodwill	—		(.1)	(.1)
Currency adjustments	—		.1	.1
Issue of shares	1.8		—	1.8
At 31st March 1986	<u>4.2</u>		<u>380.6</u>	<u>384.8</u>

21 Pensions

Full actuarial valuations of the Boots UK Pension Schemes were carried out as at 1st April 1983 by Messrs. Bacon & Woodrow, the schemes' consulting actuaries.

Contributions at the current rates, recommended by the consulting actuaries, together with existing assets of the schemes and income from future investments, are expected to be sufficient to meet the cost of existing benefits and to provide for future pension increases on the same basis as those granted in recent years.

The results of the full actuarial valuations made as at 1st April 1986 have not yet been received.

NOTES RELATING TO THE ACCOUNTS

22 Guarantees and other financial commitments

	Group		Parent	
	1986 £m	1985 £m	1986 £m	1985 £m
(a) Future capital expenditure approved by the directors and not provided for in these accounts is as follows:				
Contracts placed	28.7	42.2	16.3	26.3
Contracts not placed	12.6	23.0	6.5	1.4
	<u>41.3</u>	<u>65.2</u>	<u>22.8</u>	<u>27.7</u>

(b) Commitments under operating leases:

Annual commitments under operating leases at 31st March 1986 are as follows:

	Group		Parent	
	Land and Buildings £m	Other £m	Land and Buildings £m	Other £m
Expiring:				
within one year	.8	.4	—	.1
over one year and less than five years	4.6	2.6	—	1.0
over five years	28.3	.1	2.1	—
	<u>33.7</u>	<u>3.1</u>	<u>2.1</u>	<u>1.1</u>

23 Staff numbers and costs

	1986	1985
The average number of persons employed by the group during the year was as follows:		
Industrial Division	10,736	10,477
Retail Division	55,311	54,607
Central	1,596	2,603
Total employees	<u>67,643</u>	<u>67,687</u>
The aggregate payroll cost was as follows:	£m	£m
Wages and salaries (including profit earning bonus of £15.4m (1985 £14.0m))	356.6	332.9
Social security costs	32.8	32.6
Other pension costs	18.9	21.5
	<u>408.3</u>	<u>387.0</u>

The 31 African employees of our South African company are paid above the Supplemented Living Level. Further information is available on request to the Secretary.

NOTES RELATING TO THE ACCOUNTS

24 Remuneration of directors and senior UK employees

1986
£000

1985
£000

The following remuneration of directors and senior employees is included in aggregate payroll cost.

(i) Remuneration of directors:

Fees	35	36
Other remuneration	978	947
Payments to former directors	32	—
	<u>1045</u>	<u>983</u>

(ii) The remuneration of the chairman and chief executive, who was also the highest paid director, was £148,000 (1985 £124,000).

(iii) An analysis of remuneration (excluding pension contributions) of directors and UK employees earning over £30,000 in the year, is shown below.

		Numbers	
		1986	1985
Directors:	£145,001 — 150,000	1	—
	£120,001 — 125,000	—	1
	£95,001 — 100,000	—	1
	£75,001 — 80,000	2	—
	£70,001 — 75,000	1	—
	£65,001 — 70,000	1	2
	£60,001 — 65,000	2	1
	£55,001 — 60,000	2	2
	£50,001 — 55,000	1	2
	£25,001 — 30,000	—	1
	£20,001 — 25,000	—	1
	£10,001 — 15,000	1	1
	£5,001 — 10,000	3	4
	£1 — 5,000	2	—
Employees:	£55,001 — 60,000	1	—
	£50,001 — 55,000	1	1
	£45,001 — 50,000	6	1
	£40,001 — 45,000	15	5
	£35,001 — 40,000	38	25
	£30,001 — 35,000	50	58

NOTES RELATING TO THE ACCOUNTS

25 Directors' shareholdings

The interests of the directors and their families in the share capital of the company at 31st March 1986, which are beneficial interests, are set out below. Holdings at 1st April 1985 are shown in brackets where they differ.

Included under the heading 'ordinary shares' are those held in trust under the company's profit sharing scheme. Details of this scheme and the company's option share schemes are referred to in note 19 on page 29. No director holds any loan capital.

	ordinary shares		ordinary shares under option		expiry dates	option prices
K Ackroyd	13,104	(10,402)	(a) 5,211		1992	159/180p
			(b) 115,000		1995	195p
Dr E E Cliffe	9,628	(6,926)	(a) 6,208	(3,993)	1989/91	100/167p
			(b) 115,000		1995	195p
P H Courtney	7,554	(6,093)	(a) 5,879		1990/91	125.5/180p
			(b) 100,000		1995	195p
R N Gunn	14,868	(9,868)	(a) 5,161		1989/90	125.5/180p
			(b) 225,000		1995	195p
A H Hawksworth	4,307	(2,327)	(a) 4,822		1990/92	159/180p
			(b) 75,000		1995	195p
G M Hourston	10,730	(8,062)	(a) 4,396		1989/90	158/180p
			(b) 90,000		1995	195p
A B Marshall	2,000		—		—	—
The Rt Hon Sally Oppenheim, PC, MP	2,149		—		—	—
I M G Prosser	1,000		—		—	—
Sir Peter Reynolds	—*		—		—	—
T G Richardson	2,785	(1,704)	(a) 5,228		1991/2	158/180p
			(b) 90,000		1995	195p
M F Ruddell	866	(56)	(b) 75,000		1995	195p
D A G Sarre	2,000		—		—	—
G R Solway	8,558	(6,002)	(a) 7,561	(5,981)	1987/93	86.5/180p
			(b) 90,000		1995	195p
B H C Theobald	8,502	(6,814)	(a) 5,161		1989/90	125.5/180p
			(b) 90,000		1995	195p

(a) 1981 S.A.Y.E. Share Option Scheme

(b) Executive Share Option Scheme
introduced during the year

*at date of appointment

Directors' holdings at 29th May 1986 are unchanged.

PRINCIPAL COMPANIES

		Percentage held by parent	
		Percentage held by subsidiaries	Principal activities
Parent			
The Boots Company PLC			Manufacturing, marketing and distribution of pharmaceuticals and consumer products
Subsidiaries			
(incorporated in Great Britain)			
	Boots The Chemists Ltd.	100	Retail chemists
	Boots Pure Drug Co. Ltd.	100	Management company
	Boots International Ltd.	100	Management company
	Timothy Whites PLC	100	Property holding
	Whites Property Co. Ltd.	100	100 Property holding
	Crookes Products Ltd.	100	Marketing consumer products
	Optrex Ltd.	100	Marketing consumer products
	Farley Health Products Ltd.	100	Manufacturing and marketing consumer products
Subsidiaries (incorporated overseas)			Activities refer to pharmaceutical and consumer products unless otherwise indicated
Australia	The Boots Company (Australia) Pty. Ltd.	100	Manufacturing and marketing
Belgium	The Boots Company (Belgium) S.A.	100	Marketing
Canada	Boots Drug Stores (Holdings) Ltd.	100	Retail chemists
France	Laboratoires Boots—Dacour S.A.	92.5	Manufacturing and marketing
	Beauté, Hygiène et Soins, S.A.	100	Retailing of cosmetics and toiletries
Holland	The Boots Company (Holland) B.V.	100	Marketing
India	The Boots Company (India) Ltd.	53	Manufacturing and marketing
Ireland	The Boots Company (Ireland) Ltd.	100	Marketing
Italy	Boots-Formenti S.p.A.	55	Marketing
Kenya	The Boots Company (Kenya) Ltd.	100	Manufacturing and marketing
Malaysia	Optrex (Malaya) Sdn. Bhd.	100	Marketing
New Zealand	Boots The Chemists (New Zealand) Ltd.	100	Retail chemists and marketing
Pakistan	The Boots Company (Pakistan) Ltd.	56.5	Manufacturing and marketing
Philippines	The Boots Company (Philippines) Inc.	100	Marketing
Singapore	The Boots Company (Far East) Pte. Ltd.	100	Marketing

PRINCIPAL COMPANIES

		Percentage held by parent		Percentage held by subsidiaries		Principal activities	
South Africa	The Boots Company (South Africa) (Pty.) Ltd.	100					Manufacturing and marketing
Spain	Laboratorios Liade S.A.	100					Manufacturing and marketing
Thailand	The Boots Company (Thailand) Ltd.	100					Marketing
USA	Boots Pharmaceuticals, Inc.		100				Manufacturing and marketing pharmaceuticals
	Boots Laboratories Inc.			100			Manufacturing pharmaceuticals
West Germany	Technochemie GmbH Verfahrenstechnik			100			Manufacturing speciality chemicals
	Kanoldt Arzneimittel GmbH				95		Manufacturing and marketing pharmaceuticals

All shares held are ordinary shares. In addition the group owns 100% of the preferred shares in Boots Drug Stores (Canada) Ltd. and Boots Drug Stores (Western) Ltd., subsidiaries of Boots Drug Stores (Holdings) Ltd.

		Issued share capital		Percentage held		Principal activities	
Great Britain	Related companies						
	Boots-Celltech Diagnostics Ltd.	3,000,000 ordinary shares of £1 paid		50			Manufacturing and marketing of diagnostic products
	Preservative Systems Ltd.	10,000 ordinary 'A' shares of £1 paid		50			Manufacturing and marketing of preservative systems
Nigeria	The Boots Company (Nigeria) Ltd.	6,000,000 ordinary shares of 50 kobo fully paid		40			Manufacturing and marketing
Yugoslavia	R.O. Boots-Galenika				49		Manufacturing pharmaceuticals

All the companies operate principally in the country of incorporation.

GROUP FINANCIAL RECORD

	1986 £m	1985 £m	1984 £m	1983 £m	1982 £m
Turnover	2126.1	2033.1	1832.8	1670.0	1487.4
Profit on ordinary activities before taxation	210.4	190.3	165.1	140.1	120.2
Taxation	(72.8)	(76.6)	(59.8)	(46.9)	(30.9)
Profit on ordinary activities after taxation	137.6	113.7	105.3	93.2	89.3
Minority interests	(1.7)	(1.0)	(0.9)	(0.7)	(0.5)
	135.9	112.7	104.4	92.5	88.8
Extraordinary items	—	21.2	23.9	(3.2)	(2.6)
Profit attributable to shareholders	135.9	133.9	128.3	89.3	86.2
Dividends	(51.8)	(45.2)	(40.0)	(34.5)	(30.8)
Profit retained	84.1	88.7	88.3	54.8	55.4
Balance sheets					
Fixed assets	574.7	504.3	453.2	431.9	397.6
Investments	2.7	3.7	4.4	49.3	53.0
Net current assets	284.4	303.7	267.5	168.4	150.6
Other creditors	(12.0)	(12.8)	(13.3)	(11.6)	(13.2)
Provisions for liabilities and charges	(18.8)	(25.2)	(21.7)	—	—
Net assets	831.0	773.7	690.1	638.0	588.0
Represented by:					
Shareholders funds	827.5	770.5	687.4	635.5	586.1
Minority interests	3.5	3.2	2.7	2.5	1.9
	831.0	773.7	690.1	638.0	588.0
Statistics					
Earnings per share after taxation	18.6p	15.5p	14.4p	12.7p	12.3p
Dividend per share	7.1p	6.2p	5.5p	4.75p	4.25p
Dividend cover	2.6	3.0	3.2	2.6	2.8
Profit on ordinary activities before taxation as % of net assets	25.3	24.6	23.9	22.0	20.4
Profit on ordinary activities after taxation as % of net assets	16.6	14.7	15.3	14.6	15.2
Net asset value per ordinary share	113.9p	106.2p	94.8p	87.8p	81.0p

1 Relevant statistics have been adjusted for the effect of the one for one capitalisation issue in July 1983.

2 The book value of the group's property which amounts to 32% of net assets is, in the opinion of the directors, substantially below its current value (see page 14 for details of the independent valuation of certain UK shop properties).

DIVISIONAL FINANCIAL RECORD

	1986 £m	1985 £m	1984 £m	1983 £m	1982 £m
Industrial Division					
*Turnover					
UK (including exports)	244.5	226.1	205.4	188.3	194.6
Overseas	194.7	187.6	153.5	126.4	86.3
Intra-divisional	(34.3)	(30.7)	(22.0)	(22.0)	(17.9)
	<u>404.9</u>	<u>383.0</u>	<u>336.9</u>	<u>292.7</u>	<u>263.0</u>
*Turnover of Industrial Division includes sales to Retail Division.					
Profit on ordinary activities before taxation					
UK	40.3	34.6	36.7	39.5	38.9
Overseas	27.0	30.0	23.8	14.9	7.9
Share of results of related companies	(0.7)	(0.4)	1.8	3.5	2.6
	<u>66.6</u>	<u>64.2</u>	<u>62.3</u>	<u>57.9</u>	<u>49.4</u>
Capital expenditure	47.8	40.6	23.1	22.3	24.7
Retail Division					
Turnover					
UK	1644.9	1564.6	1456.9	1351.1	1237.3
Overseas	187.1	194.3	146.2	127.8	98.7
	<u>1832.0</u>	<u>1758.9</u>	<u>1603.1</u>	<u>1478.9</u>	<u>1336.0</u>
Profit on ordinary activities before taxation					
UK	112.0	101.3	89.0	73.1	65.9
DHSS remuneration adjustment	—	5.8	(6.2)	—	—
Surplus on disposal of properties	19.3	8.9	16.5	14.5	9.2
	<u>131.3</u>	<u>116.0</u>	<u>99.3</u>	<u>87.6</u>	<u>75.1</u>
Overseas	(0.6)	1.6	(0.1)	(3.0)	(2.1)
	<u>130.7</u>	<u>117.6</u>	<u>99.2</u>	<u>84.6</u>	<u>73.0</u>
Capital expenditure	55.3	52.4	36.8	35.7	58.2

DIVISIONAL DIRECTORS

Industrial Divisional Board

E E Cliffe, DPhil, FIBiol, FRSC

Managing Director (Chairman)

E C Bosworth

S A B Kipping

B Lessel, PhD, FIBiol

J W Lewin

T G Richardson

K T Robinson

G R Solway

K R Whitesides

J H Wilson

D J Winter, *Secretary*

Retail Divisional Board

K Ackroyd, FPS

Managing Director (Chairman)

J W Berry

P L M Davies, MPS

P Dobson, MPS

G M Hourston, FPS

A B McInnes, MPS

A R Ripley, TD, DL

M F Ruddell

D A R Thompson, FCA

B E Whalan

J D Wykes, MPS

I A Hawtin, *Secretary*

AUDITORS' REPORT

to the members of The Boots Company PLC

We have audited the accounts on pages 16 to 35 in accordance with approved Auditing Standards.

In our opinion the accounts which have been prepared on the basis of the accounting policies set out on pages 19 and 20, give a true and fair view of the state of affairs of the company and of the group at 31st March 1986 and of the profit and source and application of funds of the group for the year to that date and comply with the Companies Act 1985.

PEAT, MARWICK, MITCHELL & CO.

Chartered Accountants, Birmingham.

29th MAY 1986.

SHAREHOLDERS

Shareholdings range	Number	%
1— 500	21,319	20.0
501— 1,000	24,385	22.9
1,001— 10,000	56,655	53.1
10,001— 100,000	3,762	3.5
100,001—1,000,000	405	.4
Over 1,000,000	107	.1
	<hr/>	
	106,633	

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of The Boots Company PLC will be held at The Grosvenor House Hotel (Great Room)*, Park Lane, London W1A 3AA on Thursday, 17th July 1986 at 11 a.m.

***Note new venue**

Shareholders are requested to use the Great Room Entrance in Park Lane. Nearest Underground, Hyde Park Corner or Marble Arch.

The business of the meeting will be

Ordinary business

- (a) To receive the directors' report and statement of accounts and the auditors' report thereon.
- (b) To declare a final dividend.
- (c) To re-elect Sir Peter Reynolds as a director.
- (d) To re-elect Mr D A G Sarre as a director.
- (e) To re-appoint auditors and to authorise the directors to fix the remuneration of the auditors.

Special business

To consider, and, if thought fit, pass the resolutions set out on page 40 of which resolution No. 1 will be proposed as an ordinary resolution and resolution No. 2 will be proposed as a special resolution.

Notes

- 1 A member entitled to attend and vote may appoint one or more proxies (who need not be members) to attend and vote instead of him.
- 2 The following documents are available for inspection at 1 Thane Road West, Nottingham NG2 3AA during business hours on any weekday (excluding Saturdays) from the date of this notice until the date of the Annual General Meeting and at The Great Room, Grosvenor House Hotel, Park Lane, London W1A 3AA from 10.30 a.m. on Thursday, 17th July 1986 until the conclusion of the meeting:
 - (i) A register of interests of directors (and of their families) in the shares of the company.
 - (ii) Copies of all contracts of service under which the directors are employed by the company.

By order of the board. D N EDMUNDSON, Secretary.

Dated 19th June 1986.

The directors would be pleased to have an opportunity of meeting shareholders who will be attending.

Coffee will be served prior to the meeting from 10.30 a.m.

SPECIAL BUSINESS

Share capital

The authorities conferred on the directors at last year's annual general meeting first to allot unissued share capital and secondly to allot shares for cash in limited circumstances (the making of a rights issue or an issue of shares for cash up to a maximum of 5 per cent of the authorised share capital of the company) expire at the conclusion of the forthcoming annual general meeting. The directors recommend that the authorities be renewed for a period of a further year to expire at the conclusion of the 1987 annual general meeting. Accordingly, on a similar basis to last year, an ordinary resolution (No. 1) will be proposed to authorise the directors to allot unissued shares up to a maximum nominal amount of £42,472,727 being the unissued share capital, and a special resolution (No. 2) will be proposed authorising the directors to allot shares for cash.

Resolutions

Resolution No. 1 as an ordinary resolution

THAT, the board be and it is hereby generally and unconditionally authorised to exercise all powers of the company to allot relevant securities within the meaning of section 80 of the Companies Act 1985 up to an aggregate nominal amount of £42,472,727 provided that this authority shall expire at the conclusion of the next annual general meeting of the company after the passing of this resolution save that the company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the board may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

Resolution No. 2 as a special resolution

THAT, subject to the passing of resolution No. 1 above, the board be and it is hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94 of the Act) pursuant to the authority conferred by the previous resolution as if sub-section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:

- (a) to the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them:
and
- (b) to the allotment (otherwise that pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £11,250,000

and shall expire at the conclusion of the next annual general meeting of the company after the passing of this resolution save that the company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the board may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

Registered office Nottingham NG2 3AA (Registered in England No. 27657)

